

COMMITTEE ON LEGISLATIVE RESEARCH  
 OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 2927-01  
Bill No.: HB 1143  
Subject: Economic Development; Taxation and Revenue.  
Type: #Corrected  
Date: February 26, 2002  
 # Corrected Oversight assumptions.

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**FISCAL SUMMARY**

| ESTIMATED NET EFFECT ON STATE FUNDS                                  |                  |                  |                  |
|--|------------------|------------------|------------------|
| FUND AFFECTED  | FY 2003          | FY 2004          | FY 2005          |
| #General Revenue   | (Minimal)        | (Minimal)        | (Minimal)        |
|  |                  |                  |                  |
| <b>#Total Estimated<br/>Net Effect on <u>All</u><br/>State Funds</b> | <b>(Minimal)</b> | <b>(Minimal)</b> | <b>(Minimal)</b> |

| ESTIMATED NET EFFECT ON FEDERAL FUNDS                                 |            |            |            |
|---|------------|------------|------------|
| FUND AFFECTED   | FY 2003    | FY 2004    | FY 2005    |
| None  |            |            |            |
|   |            |            |            |
| <b>Total Estimated<br/>Net Effect on <u>All</u><br/>Federal Funds</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> |

| ESTIMATED NET EFFECT ON LOCAL FUNDS |            |            |            |
|-------------------------------------|------------|------------|------------|
| FUND AFFECTED                       | FY 2003    | FY 2004    | FY 2005    |
| <b>Local Government</b>             | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> |

Numbers within parentheses: ( ) indicate costs or losses.  
 This fiscal note contains 4 pages.

**FISCAL ANALYSIS**

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## ASSUMPTION

Officials from the **Department of Economic Development (DED)** state this proposal appears to have no fiscal impact on DED. It only redistributes credits that already exist.

Officials from the **Department of Revenue (DOR)** do not anticipate a significant increase in the number of new credits filed as a result of this proposal. Therefore, DOR did not request additional FTE at this time. However, if DOR is incorrect in this assumption, they assume they will need one Temporary Tax Season Employee for every 75,000 additional credits, one Tax Processing Tech I for every 30,000 additional errors generated and one Tax Processing Tech I for every 3,000 additional pieces of correspondence received regarding this credit. DOR will monitor the credit and any FTE needed will be requested during the normal budget process.

Officials from the **Department of Agriculture** state this proposal would not fiscally impact their agency.

**Oversight** assumes the changes made to the Neighborhood Preservation tax credit program will not change the annual cap of \$16 million, or \$8 million each for the qualifying areas and the eligible areas. According to DED, in calendar year 2001, the entire pot of \$8 million in credits for eligible areas was claimed while only \$2.6 million of the \$8 million in credits for qualifying areas was claimed. The fiscal note prepared for the enabling legislation for this program reflected a loss of state funds of \$0 to (\$16 million) annually starting in FY 2001. Therefore, while this proposal may result in an increased utilization of the Neighborhood Preservation tax credit program, Oversight assumes the cap on the program has not changed from the \$16 million reflected in the fiscal note for SB 20 in 1999, and therefore, assume no additional fiscal impact from the changes in this program.

**#Oversight** assumes the proposal also changes the definition of “distressed communities” in Section 135.530. This definition is used by various programs under DED, including CAPCO, Tax Credit for Contributions to Innovation Centers, Credit for New or Expanded Business Facilities as well as others. While some of these programs are capped, the New or Expanding Business Facility tax credit is not capped. A business in a newly created distressed community would be allowed a larger tax credit for expanding an existing business or creating a new business facility than they would if they were not in the newly defined distressed community. Companies not in a distressed communities are allowed the credit, but at a lower per-employee and per-capital rate. With DED’s assumption that expanding the definition of distressed communities would have no impact (or certainly negligible) on the amount of tax credits utilized, Oversight assumes this proposal would have a minimal fiscal impact on the General Revenue Fund.

## ASSUMPTION (continued)

**#Oversight** assumes this proposal may result in the increased utilization of some of the various

tax credit programs that use the definition of distressed communities, however, many of the programs are capped, therefore, Oversight has already reflected the potential losses to the General Revenue fund in previous fiscal notes.

| <u>FISCAL IMPACT - State Government</u>                             | FY 2003<br>(10 Mo.)     | FY 2004                 | FY 2005                 |
|---|-------------------------|-------------------------|-------------------------|
| <b>#GENERAL REVENUE FUND</b>  |                         |                         |                         |
| <u>#Loss</u> - Expansion of definition of<br>"distressed community" | <u>(Minimal)</u>        | <u>(Minimal)</u>        | <u>(Minimal)</u>        |
| <b>#ESTIMATED NET EFFECT TO<br/>THE GENERAL REVENUE FUND</b>        | <u><b>(Minimal)</b></u> | <u><b>(Minimal)</b></u> | <u><b>(Minimal)</b></u> |
| <br><u>FISCAL IMPACT - Local Government</u>                         | <br>FY 2003<br>(10 Mo.) | <br>FY 2004             | <br>FY 2005             |
|   | <u><b>\$0</b></u>       | <u><b>\$0</b></u>       | <u><b>\$0</b></u>       |

#### FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credit may be fiscally impacted by this legislation.

#### DESCRIPTION

This proposal makes several changes to the Neighborhood Preservation tax credit program within the Department of Economic Development. The proposal expands the definitions of "eligible residence", "new residence" and "project" as well as adds a definition for "central business district" used in the tax credit for rehabilitation and construction of residences in distressed communities and census block. The proposal also increases the eligible tax credit from 15 to 20 percent of costs incurred for a new residence

Under current law, of the \$16 million in community improvement tax credits allowed, \$8 million are to

#### DESCRIPTION (continued)

be allocated for "eligible residence" programs and \$8 million for "qualifying residence" programs. The proposal states that if, by October 1 of the calendar year, the Director of the Department of Economic Development has issued all \$8 million of the credits allowed for one of

these programs and not the entire \$8 million allowance for the other program, the director is required to reallocate 70% of any unused tax credits from the program which has not reached its \$8 million cap to the one which has.

The reallocated credits will be given to taxpayers who have applied for, but have not received, tax credits in that same year and who are engaged in projects in the area where the tax credit cap has been met for that same year. The maximum reallocated tax credit for any project cannot exceed \$500,000.

The proposal also adds that projects involving the new construction, rehabilitation or substantial rehabilitation of more than one residence qualifying for the tax credit for rehabilitation and construction of residences in distressed communities may be submitted with one application. Also tax certificates may be approved upon completion for each individual residence rather than delaying until substantial completion of the entire project

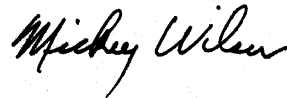
The proposal also expands the definition of a "distressed community". A distressed community will include areas within metropolitan statistical areas that are designated as either a federal empowerment zone, a federal enhanced enterprise community, or state enterprise zones designated prior to January 1, 1986, but will not include the expansion of those zones done after March 16, 1988.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

#### SOURCES OF INFORMATION

Department of Economic Development  
Department of Revenue  
Department of Agriculture

**NOT RESPONDING:**        **Greene County, Christian County**



Mickey Wilson, CPA  
Acting Director  
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